A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

THE CONFERENCE BOARD

OCTOBER 1980

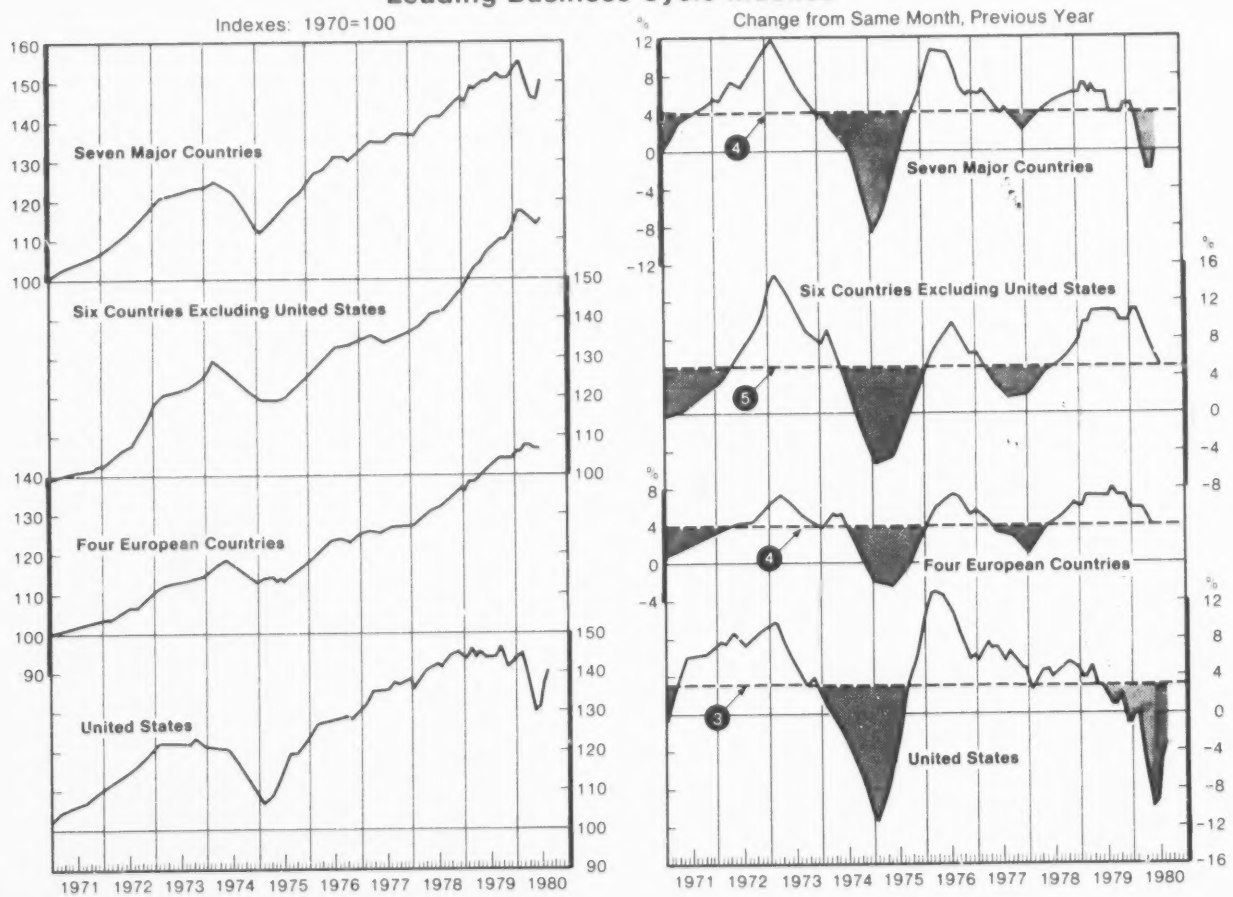
Substantial improvements have been registered recently in the leading indexes for the United States, Canada and France. Between May and August, the U.S. index recovered more than half the distance back towards the September 1979 peak. In both Canada and France the indexes, after giving off initial signals of recession, reached new highs in July.

On the other hand, the leading indexes for the United Kingdom, West Germany, Italy and Japan have been flat or declining in recent months. In terms of the three sequential signals of recession described in the August *Scoreboard,* the UK passed all three in March, while West Germany and Japan passed the first signal in May and June, respectively. Italy has yet to reach the first signpost, but its leading index has leveled off.

The composite leading index for all six countries outside the U.S. reflects this rather mixed picture, but with more weakness than strength. During the first four months of 1980, the current growth rate in this index exceeded its long-run trend rate, but in May the current growth rate fell below the trend rate. Hence the six-country index passed the first recession signal at that time.

Stronger evidence of an international recession is provided by the measures of economic performance that we call coincident indicators. These include measures of output, employment, real income and the volume of trade. The composite coincident index for all six countries outside the U.S. reached its high to date in February, one month after the U.S. business cycle peak.

Leading Business Cycle Indexes


Indexes: 1970=100
Change from Same Month, Previous Year
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980

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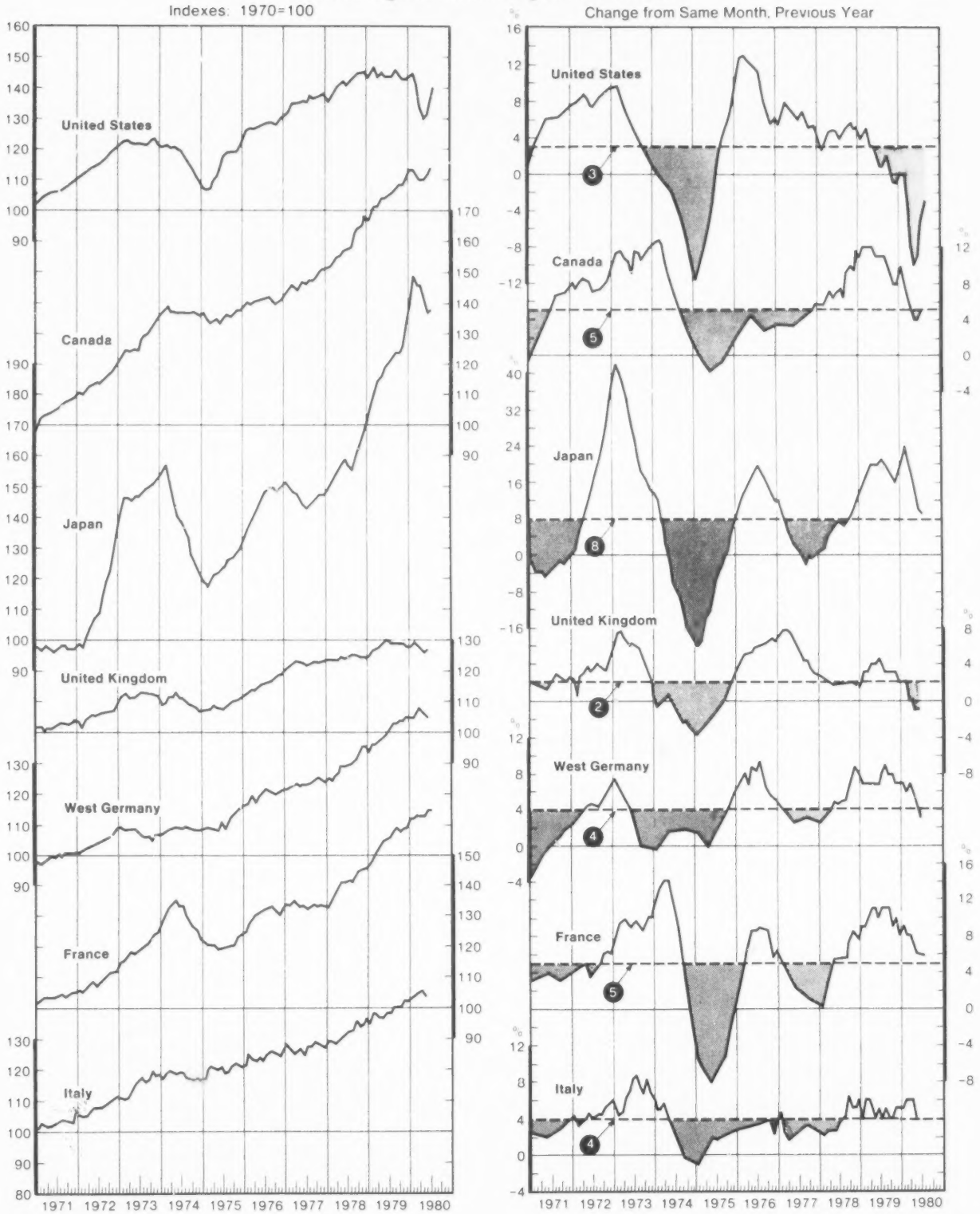
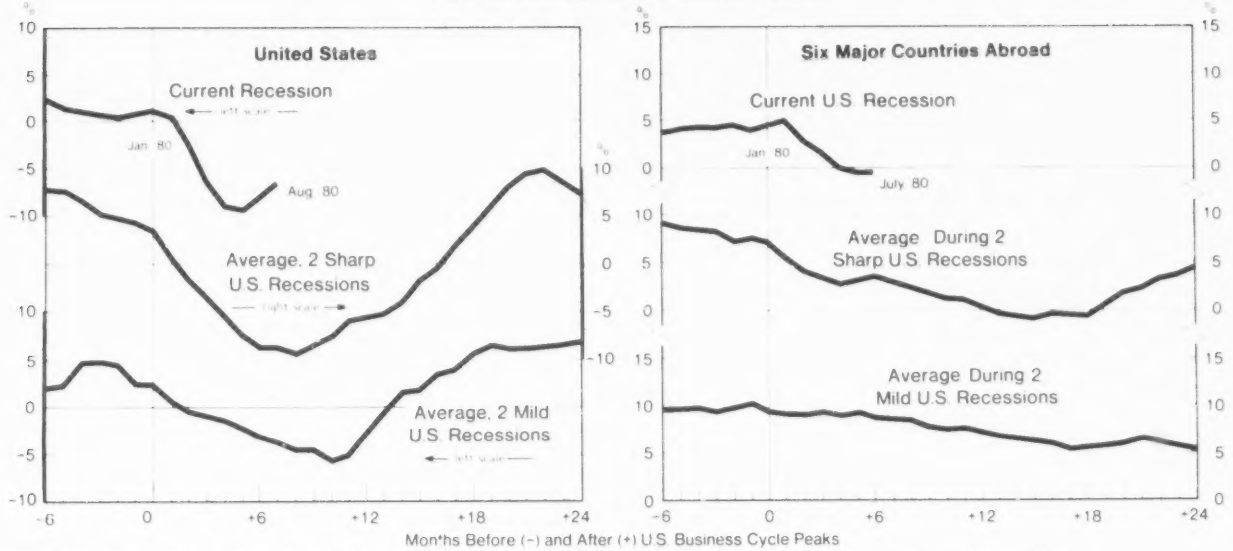
Leading Business Cycle Indexes



Note: For explanation, see back page

Economic Growth Rates, United States and Major Countries Abroad, During U.S. Business Cycles



Notes: In the right panel, the six countries included in the index from which these growth rates are derived are: Canada, Japan, United Kingdom, West Germany, France and Italy. Sharp U.S. recessions took place in 1957–58 and 1973–75; mild U.S. recessions took place in 1960–61 and 1969–70.

Leading Indexes, Seven Countries, 1979-80

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex U.S.	4 Countries Europe
						Indexes, 1970 = 100					
Jan.	79	144	167	172	125	134	147	135	146	148	136
Feb.	79	145	169	176	127	136	149	138	147	150	138
Mar.	79	147	171	180	127	136	150	138	149	152	138
Apr.	79	144	171	184	128	137	153	137	148	153	139
May	79	145	174	186	129	138	154	137	149	154	140
June	79	144	174	189	130	139	155	138	150	156	141
July	79	144	175	191	129	141	156	138	150	157	142
Aug.	79	144	176	192	129	143	158	140	151	158	143
Sept.	79	146	178	194	129	143	159	140	152	159	144
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May	80	130	180	212	126	146	163	144	146	165	146
June	80	131	182	207	127	145	165		146	164	146
July	80	137	184	208			165		150	165	
Aug.	80	140									
						Percent Change from Preceding Year					
Jan.	79	4	11	14	2	7	9	4	6	8	6
Feb.	79	4	12	16	3	7	9	6	7	10	7
Mar.	79	5	12	18	3	7	10	6	7	10	7
Apr.	79	3	12	20	4	7	11	5	6	11	7
May	79	3	12	20	4	7	11	4	7	11	7
June	79	2	11	20	5	7	10	5	6	11	7
July	79	1	11	21	4	8	11	4	6	11	7
Aug.	79	1	11	20	3	9	11	5	6	11	8
Sept.	79	2	10	19	3	8	11	4	6	11	7
Oct.	79	0	9	18	3	8	9	4	4	10	7
Nov.	79	−1	8	16	3	7	10	5	4	10	7
Dec.	79	−1	8	18	2	7	8	5	4	10	6
Jan.	80	0	10	21	2	7	9	5	5	11	6
Feb.	80	0	8	24	2	5	8	6	5	11	6
Mar.	80	−3	6	20	0	7	8	6	3	10	6
Apr.	80	−8	5	18	0	6	7	6	0	9	5
May	80	−10	4	14	−1	5	6	4	−2	7	4
June	80	−9	4	10	−1	3	6		−2	6	4
July	80	−5	5	9			6		0	5	
Aug.	80	−3									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

Growth rates in this index—for the United States and the six major countries abroad—are plotted on the special chart at the top of page 3. The chart is designed to provide a comparison of the current downturn with previous U.S. recessions that were sharp (1957-58 and 1973-75) versus mild recessions (1960-61 and 1969-70). The 1980 U.S. recession traces a pattern very similar to that of previous sharp recessions.

The chart also reveals that sharp U.S. recessions tend to be international in scope, whereas mild recessions here are hardly noticeable in other countries. No doubt the relationship works both ways. Severe recessions in the United Stated reduce U.S. imports, hurting the sales of other countries; slumps in other countries reduce their demand for U.S. exports, hurting U.S. sales.

As the chart shows, the growth rate abroad has declined even more during the 1980 U.S. recession than it did during the previous two sharp U.S. recessions. Earlier this year it had appeared that 1980 might prove an exception to the rule that sharp U.S. recessions are international. When the U.S. leading index dropped significantly last Spring, the same indexes for most of the other countries remained resolutely strong. Now, however, the tide has turned toward an international recession, which is likely to slow the growth of U.S. exports. It is, however, very important to remember that the pattern across countries is by no means uniform.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This bimonthly Conference Board report on the business outlook in seven major industrial countries is based on an analytical system of leading, coincident and lagging indicators, first developed in the 1930's by the National Bureau of Economic Research, which has become widely used in the United States to appraise the state of the business cycle. Since 1961 U.S. figures for these indicators have been published monthly by the U.S. Department of Commerce in *Business Conditions Digest*. Similar systems have been developed in Canada, Japan, the United Kingdom and a few other countries, but because of differences in content or methodology the results are not closely comparable. In an effort to establish greater comparability and broaden the coverage, a new set of indicators for seven major industrial countries was recently developed by Geoffrey H. Moore of the NBER and Philip A. Klein of Pennsylvania State University. They are being kept up to date, analyzed, and circulated to subscribers by the Center for International Business Cycle Research at Rutgers University in Newark, New Jersery.

The leading indexes shown here are composites based on a total of some 65 indicators that usually anticipate changes in national output or employment by several months. New orders, contracts for construction, corporate profits, stock prices, new business enterprises or business failures, and changes in consumer debt are among the indicators included for each country whenever available. (The U.S. leading index used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.) Experience has demonstrated that these indicators are helpful in tracking an economic recession or recovery, in revealing factors that are retarding expansion or leading to recession, in anticipating changes in foreign trade flows, and in providing early warning of new inflationary trends. To facilitate analysis the indexes shown in the charts are adjusted so that their long-run growth rates are equal to those in real GNP in the country concerned during 1966-76 (shown at the bottom of the table and by horizontal lines on the charts; the growth rate for each index is encircled on the chart).

For More Information

To find out more about this indicator system and its uses, and about the availability of the current data, please address inquiries to

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

THE CONFERENCE BOARD

DECEMBER 1980

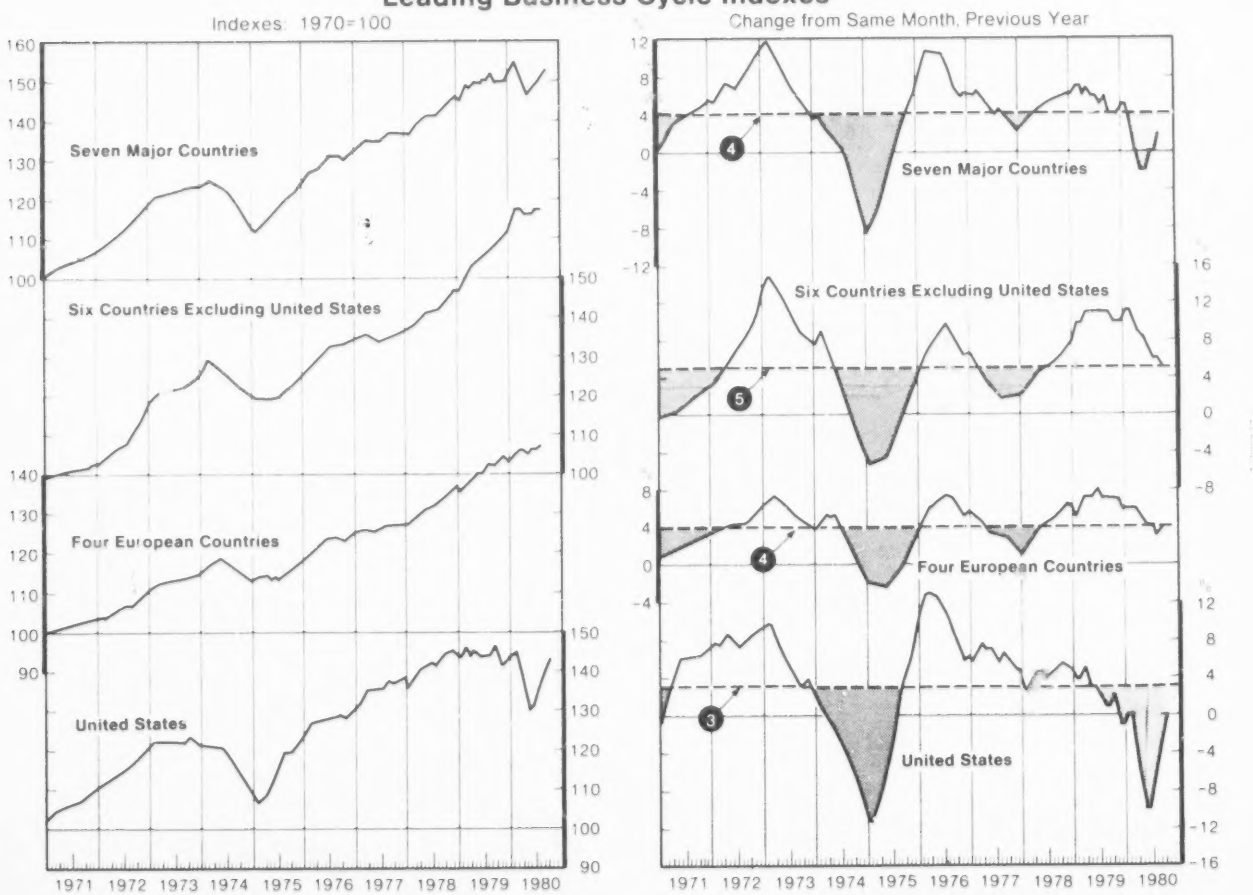
The leading indexes are presenting a mixed picture of the evolving economic situation in the seven major industrial countries, ranging from recovery in the U.S. and Canada, moderate slowing in Italy, France and West Germany, to declines in the United Kingdom and Japan.

The U.S. index has recovered sharply from its steep decline early this year. After falling from its high of 146 in September a year ago to 130 in May, it rose to 143 in October, thus recovering more than three-fourths of the drop. The improvement has been sufficient to qualify as the initial signal of an end to the recession, but further gains must be made before this event can be considered confirmed. These future gains are in some jeopardy in view of the unusually prompt and dramatic advance in interest rates, which has boosted the cost of making the new investment and other commitments embodied in the leading indicators. The preceding and equally dramatic decline in the cost of money had been a major factor behind the recovery in these commitments, and that stimulus has now disappeared.

The Canadian leading index has fully recovered from its minor dip of last spring, and in September stood 6% above its year-ago level. Hence the tentative recession signal that had begun to flash in Canada last March has now stopped flashing.

Conditions outside North America look less favorable. In Italy, France and West Germany the indexes have continued to rise but at a slower pace, with rates of growth over the year in the four to five percent range, down from six to eight percent earlier. The United Kingdom and Japan show somewhat more

Leading Business Cycle Indexes



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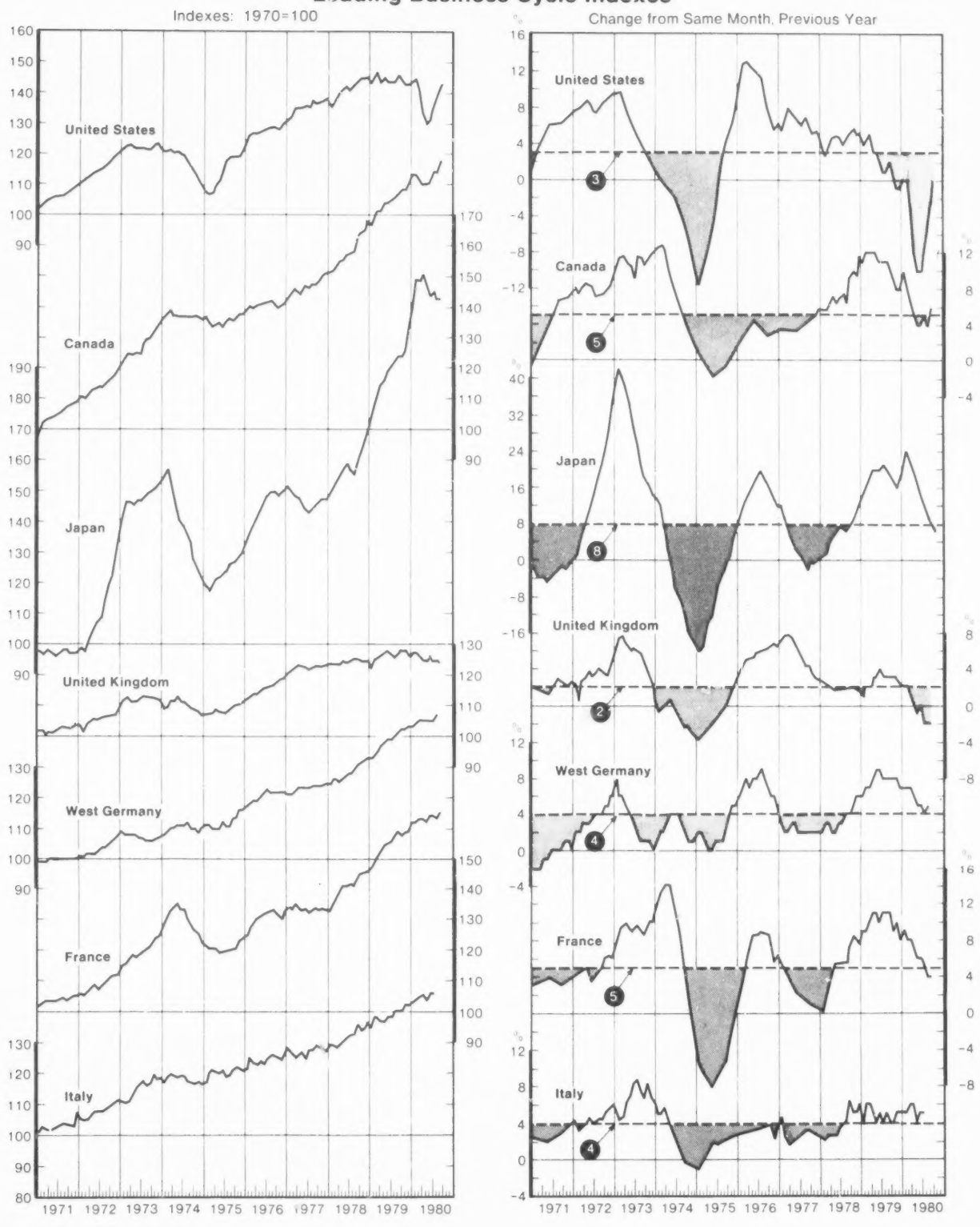
Leading Business Cycle Indexes



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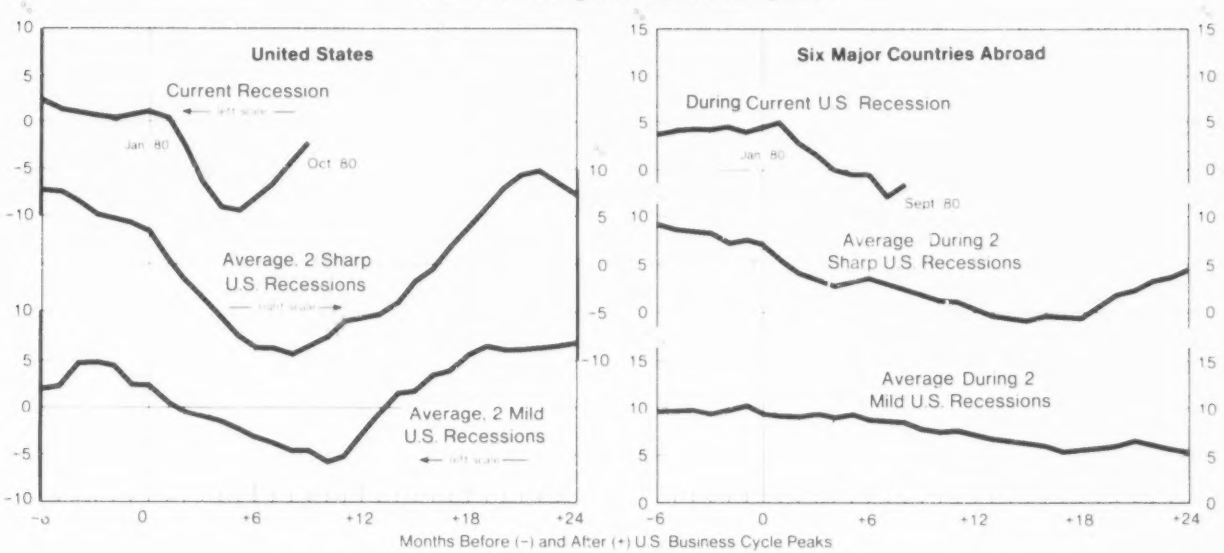
Economic Growth Rates, United States and Major Countries Abroad, During U.S. Business Cycles


United States
Current Recession
Jan. 80
Oct. 80
Average, 2 Sharp U.S. Recessions
Average, 2 Mild U.S. Recessions
Six Major Countries Abroad
During Current U.S. Recession
Jan. 80
Sept. 80
Average During 2 Sharp U.S. Recessions
Average During 2 Mild U.S. Recessions
Months Before (–) and After (+) U.S. Business Cycle Peaks

Notes: The six countries (eight curves) are Canada, Japan, United Kingdom, West Germany, France, and Italy. Sharp U.S. recessions took place in 1957-58 and 1973-75; mild U.S. recessions took place in 1960-61 and 1969-70. The growth rates are based upon composite coincident indexes (including output, sales, volume, employment, and real income) and are percent changes in the current month from the average of the preceding 12 months, expressed at an annual rate.

Leading Indexes, Seven Countries, 1979-80

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June	80	–10	4	14	0	5	6	5	–2	7	4
July	80	–6	5	12	–2	4	5	5	0	6	3
Aug.	80	–5	4	9	–2	5	4		0	6	4
Sept.	80	–2	6	7	–2		4		2	5	
Oct.	80	0									
						Ten-Year Annual Growth Rate, Percent					
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weakness; in those countries the leading indexes have declined in recent months, although the declines have been moderate—down about 3% from their peaks. Consequently, in Europe and Japan, the early warning indicators are signaling either slowdown or recession.

This diagnosis is supported by the recent trends in measures of output, sales volume, employment and real income, summed up in the so-called coincident indicators. The chart on page 3, which first appeared in the October issue of the *International Economic Scoreboard,* compares the growth rates in these measures during the 1980 U.S. recession and previous U.S. recessions. The growth rate in the U.S. composite coincident index was still negative as of October, at —2%, but this represented a substantial improvement over the —9% rates registered in May and June. For the six other major countries taken together, the composite coincident index also registered negative growth rates in the neighborhood of —2% in August and September. But this represented a deterioration rather than an improvement as compared with the situation earlier this year. Hence the pattern abroad continues to resemble that which developed during the two sharp U.S. recessions of 1957-58 and 1973-75, which were international in scope.

The cyclical pattern among the major industrial countries, therefore, is delicately balanced. In North America recovery is underway but threatened. Abroad there is slowdown or recession. The major uncertainty in the global economy is whether the weakness abroad will develop into a full-fledged international recession, and thus cut short the current improvement in the U.S. and Canada, or whether the recovery here will prevail over the weakness elsewhere.

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The leading indexes shown here are composites based on a total of some 65 indicators that usually anticipate changes in national output or employment by several months. Among the indicators included for each country, whenever available, are new orders, construction contracts, corporate profits, stock prices, and changes in consumer debt. (The leading index for the U.S. used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.)

Experience has shown these indexes to have a persistent tendency to lead output and employment, for reasons deeply rooted in the workings of the business economy. In every country, when the leading index begins to rise faster, it is a fairly safe rule that industrial production will soon begin to rise faster too—typically after 3 or 4 months. When the leading index begins to rise more slowly or to decline, industrial production is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board,* April 1980.) Considerable variation in the length of lead is to be expected, however, so that constant monitoring is a prerequisite for effective use of the system. Among the uses that have been demonstrated are tracking a recession or recovery and identifying the factors involved, anticipating changes in foreign trade flows, and providing early warning of new inflationary trends. To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned during 1966-76. (These growth rates are shown at the bottom of the table and by horizontal lines on the right panel of the charts.)

For More Information

To find out more about this indicator system and its uses, and about the availability of all current data monthly for each country, please address inquiries to

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

THE CONFERENCE BOARD

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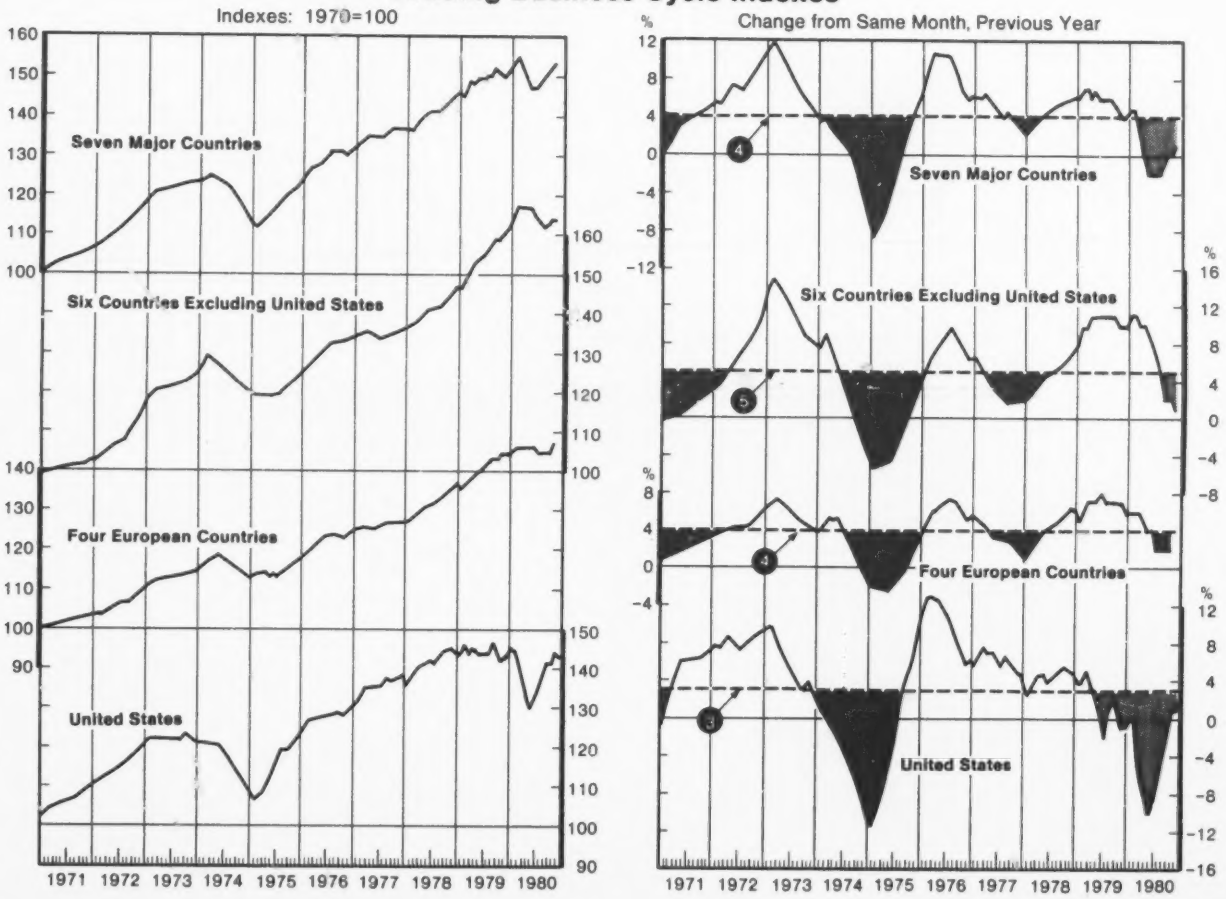
FEBRUARY 1981

A recovery beginning briefly in the United States and Canada; recession in the United Kingdom, Japan and probably West Germany; and continued growth in France and Italy—this is the diverse menu served up by the leading indexes in the closing months of 1980. That diversity itself has implications different from those of a synchronized international recession or a synchronized spell of rapid expansion. The latter would increase the difficulty of containing inflation, the former the danger of rising unemployment. In many respects, an unsynchronized world economy is the best of all *possible* worlds, since it helps avoid either extreme.

Some interesting patterns emerge if one goes beyond the most recent movements in the leading indexes and focuses on their long-term growth instead. Not only did the indexes for three countries—Canada, France and Italy—reach new highs in the latest months, but the November figures for Canada and France were 85 percent and 68 percent, respectively, above their 1970 levels. For Italy, the index in September (latest available figure) stood 51 percent above the 1970 base.

For the four other countries, still plagued by recession, the indexes had reached their highs somewhat earlier. But even for three of these countries the long-term record is fairly impressive. Thus, the November figure for Japan, although down sharply (9 percent) since April, was exactly twice the 1970 level, recording the fastest growth among the seven countries. West Germany's index, down from last May's peak, by October showed a 44 percent gain for the entire decade.

Leading Business Cycle Indexes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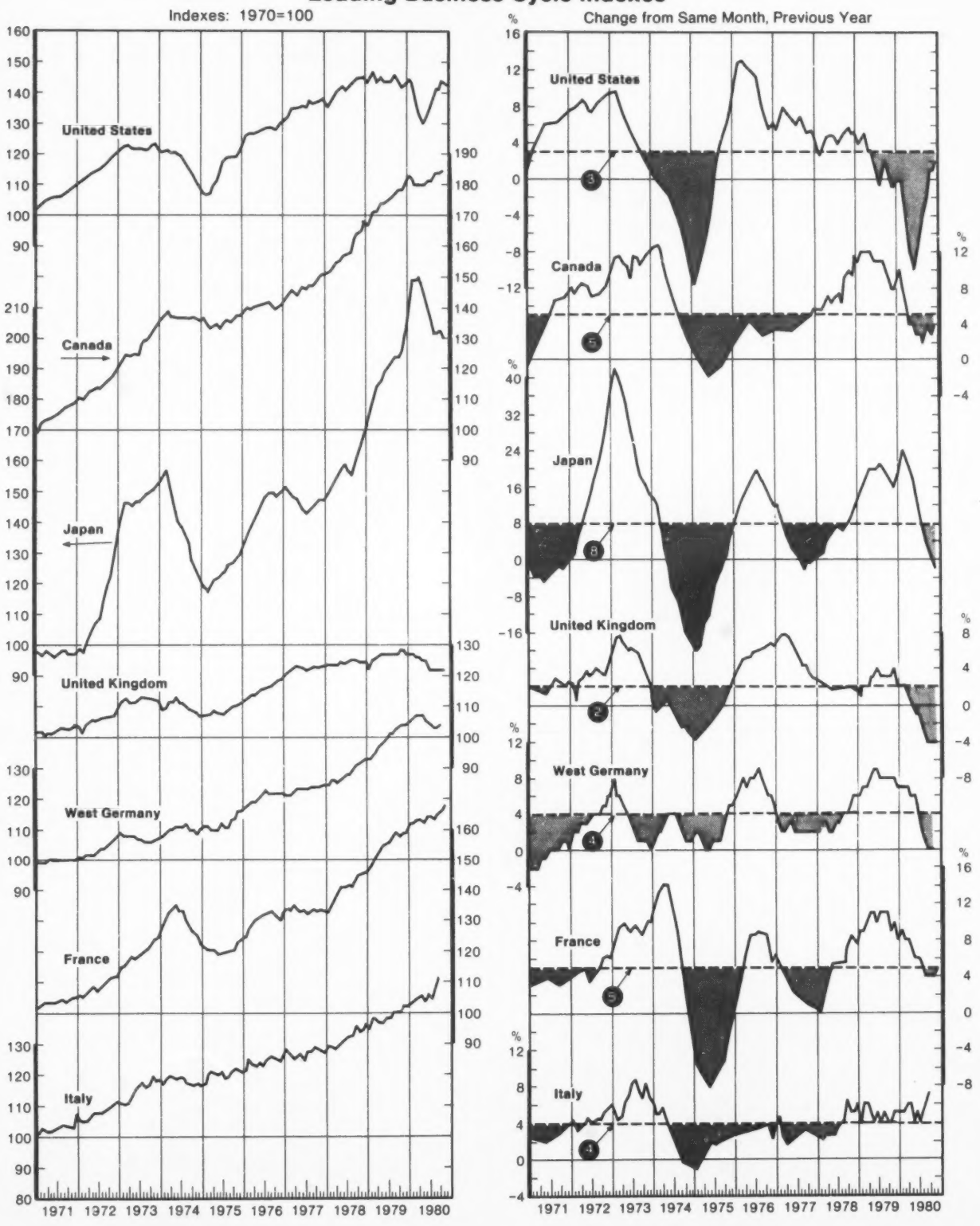
Leading Business Cycle Indexes



Note: For explanation, see back page.

The United States index, after having recovered nearly all of its earlier, recession-induced decline, sagged slightly in December, but managed to end the decade with a 43 percent gain. For the United Kingdom, on the other hand, the November index was down 5 percent from a year earlier and only 22 percent higher than in 1970.

Signals of Recession and Recovery

As a guide to objective judgment on the emergence of recession or recovery in a country, a three-phase scoring system was first described here last August. The system utilizes both the leading indexes shown in the *International Economic Scoreboard* and a corresponding set of coincident indexes compiled from data on real gross national product, industrial production, employment, unemployment, real income, and sales. Hence the signals of recession or recovery are based upon a wide range of economic data and reflect the most recent rates of change in both the leading and coincident indexes. The criteria for the three phases are chosen in such a way that these usually occur in sequence over several months, with each successive signal yielding a more decisive verdict on whether recession has begun or recovery is under way.

By March 1980, according to the data now available, both the United States and the United Kingdom had passed all the signals indicating the start of a recession. By November, the U.S. had passed the first two signals of recovery, but not the third. Hence there is still some uncertainty regarding the durability and vigor of the U.S. upswing. In the U.K., the Japanese indexes

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June	80	−9	3	12	−1	4	6	5	−2	6	4
July	80	−7	3	9	−3	2	5	4	−2	4	2
Aug.	80	−4	2	4	−4	1	4	6	−1	2	2
Sept.	80	−2	4	2	−4	0	4	7	0	2	2
Oct.	80	1	3	1	−4	0	4		0	2	2
Nov.	80	1	4	−2	−4		5		1	1	
Dec.	80	2									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

registered all three signals of recession by August, and those for West Germany had passed the first two of recession by July. In the Canadian and French indexes only the first signal of recession had been recorded, back in March and May, respectively, while the Italian indexes have not registered any of the three signals of recession. Hence the signals display, in a formal way, the diversity in the current international scene that can be observed by careful study of the figures.

How well the sequential signal framework will stand up when the business cycle history of these times is written remains to be seen. Revisions of back data are clearly a problem, as well as the fact that some economic data are not available promptly. The position is somewhat like that of a doctor whose thermometer registers the patient's temperature as it was last week, but doesn't give a firm reading even of that. Fortunately, however, we have several thermometers, including some that measure next week's temperature. Hopefully, the record will show that the signals have given a reasonably timely and accurate diagnosis of the international situation.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

THE CONFERENCE BOARD

APRIL 1981

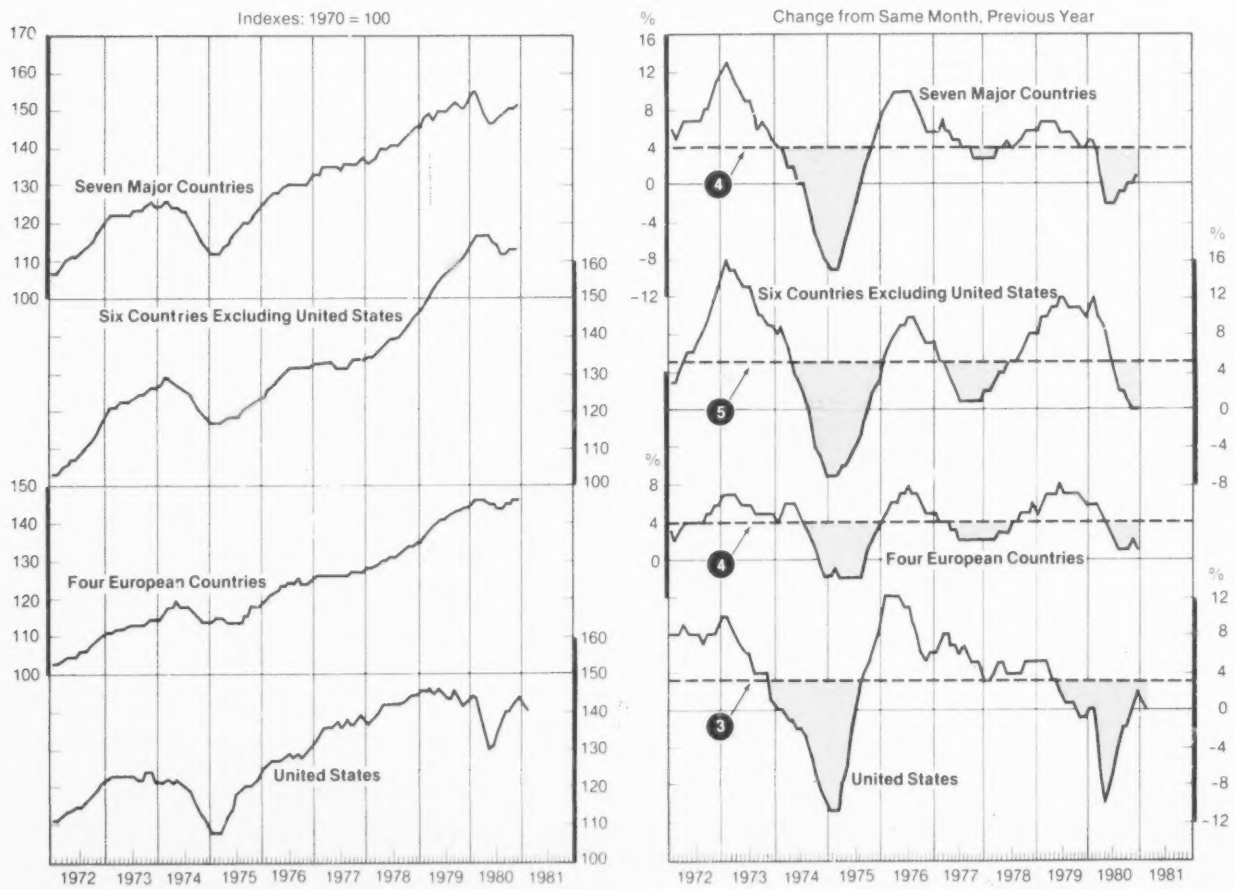
STATUS OF THE LEADING INDEXES

Summary: On balance, the industrial world is just about in neutral, as the result of an unusual diversity of cyclical movements among the individual countries.

	Ten-year Growth Rates	Recent rates of change*			Current reading
		6 mo. ago	3 mo. ago	Latest	
		(annual rates, percent)			
United States	3	−2	4	2	Recovery slowing.
Canada	5	1	3	5	Advancing smartly again.
Japan	8	2	−7	−11	Decline continuing.
United Kingdom	2	−5	−6	− 1	Downturn levelling off.
West Germany	4	2	−3	− 2	Decline may have halted.
France	5	2	2	4	Expansion continuing.
Italy	4	4	8	12	Expansion accelerating.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes: 1970 = 100
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1972 1973 1974 1975 1976 1977 1978 1979 1980 1981

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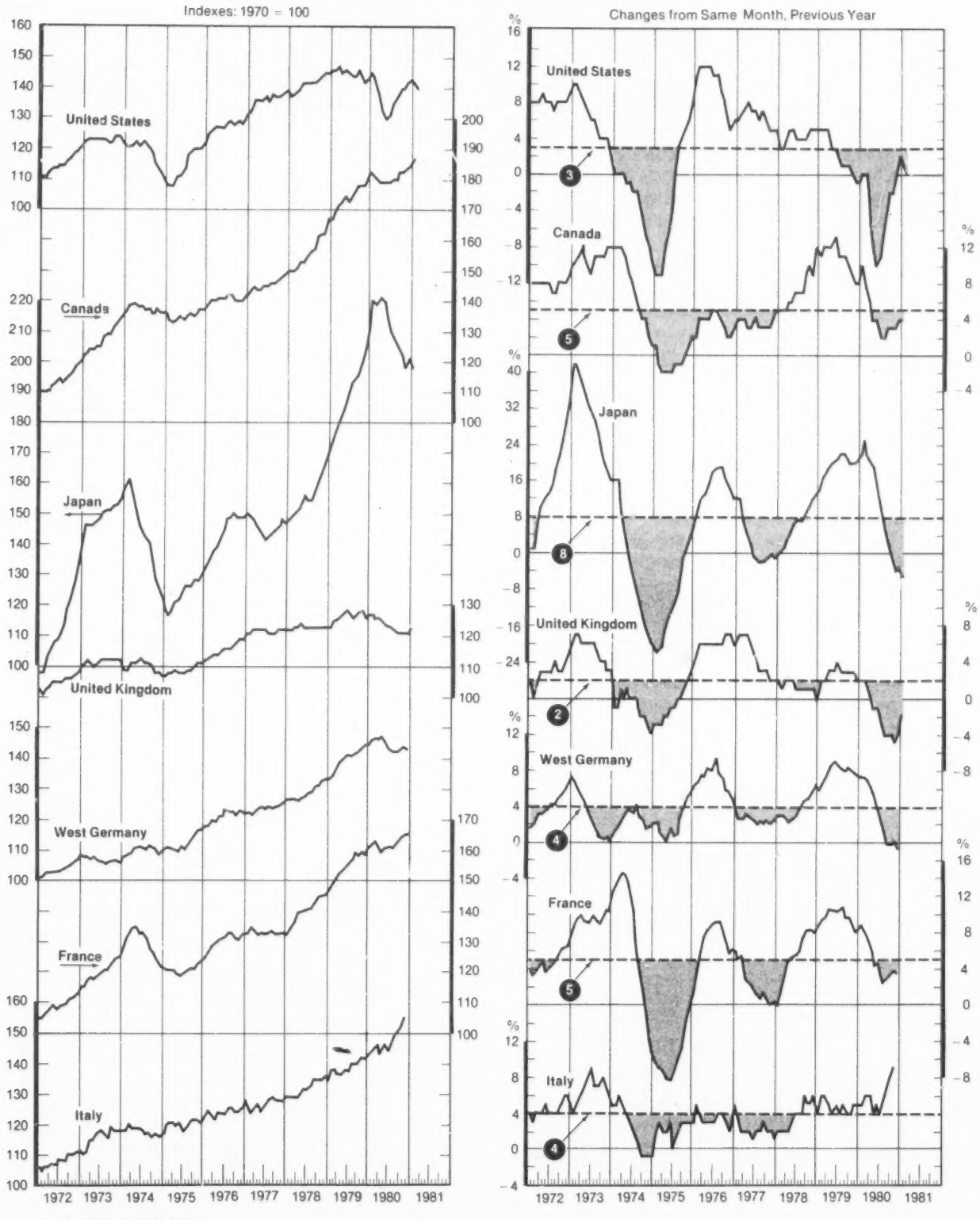
Leading Business Cycle Indexes



Note: For explanation, see back page.

Tentative signs of an end to the recession in the United Kingdom have begun to appear in its leading index, which moved up two points in January. A substantial majority of the components of this index rose, and scattered figures for February confirm this favorable development. This is the first advance in the index in 15 months. In terms of the three signals of recovery defined in earlier issues of this *Scoreboard,* however, the improvement has not carried far enough to reach even the first of the three signals and hence remains tentative.

One of the current positive factors in the British economy is the continuing increase in the U.K. export surplus, which reached an annual rate of $20 billion in 1980's fourth quarter. The effect of this on the real level and trend of gross domestic product appears to be substantially understated in the most widely used measure of economic activity in Britain. The reason is that the statistical procedure used to adjust for price changes of imports and exports does not allow for the substantial improvement in the U.K.'s terms of trade since 1975, which has come about mostly because of the rising price of oil and the increased production from North Sea fields. The British statistical office does, however, make an alternative calculation, which does take account of the greater increase in export prices than in import prices, and this measure shows that the aggregate real income available to the British economy has been almost fully sustained during the current recession. Between 1979 and 1980, for example, when the standard index of national output dropped 3 percent, the alternative measure sagged only 0.3 percent. The British recession has been real enough, as the unemployment numbers show, but the underlying benefit from the piling up of an export surplus should not be discounted.

Highlights of recent movements in the leading indicators for other countries are:

A decline in the U.S. leading index in January and February has interrupted the sharp recovery that began in June. The decline from 143 in December to 140 in February has been modest, and to this point seems to portend a lull in the economic expansion rather than a renewed downturn.

The Canadian, French and Italian leading indexes show substantial advances continuing through the latest months available.

The index for West Germany levelled off in the final months of 1980 following a short but sharp dip over the summer months.

The leading indicators for Japan continue to show the weakest performance among the seven countries, although the index levelled off in December and January.

Leading Indexes, Seven Countries, 1980-81

	U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
					Indexes, 1970 = 100					
Jan. 80	145	183	212	127	145	162	143	154	165	145
Feb. 80	144	182	220	127	146	162	144	155	167	146
Mar. 80	139	180	219	126	147	162	145	152	167	146
Apr. 80	133	179	222	126	147	162	146	149	167	146
May 80	130	179	220	125	147	160	144	147	167	145
June 80	131	179	214	124	145	162	146	147	165	145
July 80	135	180	211	123	144	162	145	148	164	144
Aug. 80	138	180	206	122	143	161	149	149	162	144
Sept. 80	140	183	204	121	142	163	150	150	162	145
Oct. 80	140	183	202	121	143	164	152	151	163	145
Nov. 80	142	184	198	121	144	166	155	151	163	146
Dec. 80	143	185	201	121	143	166		152	163	146
Jan. 81	142	187	198	123						
Feb. 81	140									
					Percent Change from Preceding Year					
Jan. 80	0	10	22	2	7	9	5	5	11	6
Feb. 80	0	8	25	2	7	8	5	5	12	6
Mar. 80	−4	6	22	1	7	7	6	3	10	6
Apr. 80	−8	4	21	0	6	6	6	0	9	5
May 80	−10	4	19	−1	6	4	4	−2	8	4
June 80	−9	3	13	−1	4	4	5	−2	6	3
July 80	−7	2	10	−3	2	4	4	−2	4	2
Aug. 80	−4	2	5	−4	1	3	6	−1	2	1
Sept. 80	−2	3	2	−4	0	3	7	−1	2	1
Oct. 80	−2	3	0	−4	0	3	8	0	1	1
Nov. 80	0	3	−4	−5	0	4	9	0	0	2
Dec. 80	2	4	−3	−4	−1	4		1	0	1
Jan. 81	1	4	−6	−2						
Feb. 81	0									
					Ten-Year Annual Growth Rate, Percent					
1966-76	3	5	8	2	4	5	4	4	5	4

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

THE CONFERENCE BOARD

JUNE 1981

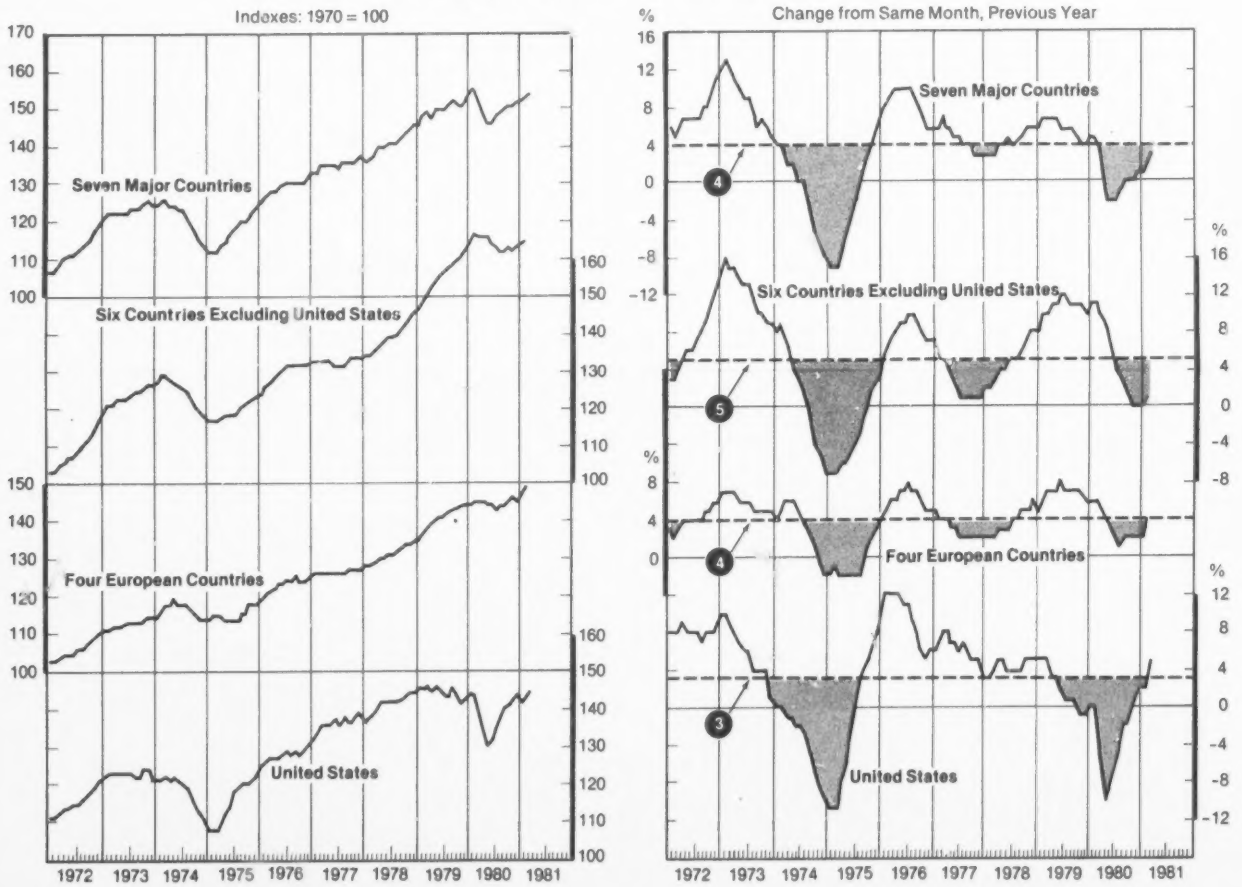
STATUS OF THE LEADING INDEXES

Summary: Improved readings from the leading indicators have been registered in all seven major industrial countries during the past few months, suggesting that a general expansion may be getting under way.

	Ten-year Growth Rates	Recent rates of change* 6 mo. ago	3 mo. ago	Latest	Current reading
		(annual rates, percent)			
United States	3	2	5	10 (Apr.)	Recovery completed, expansion continuing.
Canada	5	3	3	6 (Mar.)	Expansion continuing.
Japan	8	—6	— 8	— 7 (Mar.)	Decline has halted.
United Kingdom	2	—7	— 6	— 2 (Mar.)	Decline has halted.
West Germany	4	0	0	2 (Jan.)	Recovery may have started.
France	5	3	3	8 (Mar.)	Expansion continuing.
Italy	4	3	10	13 (Jan.)	Expansion accelerating.
6 countries ex. U.S.	5	—1	— 2	1 (Feb.)	Decline has halted.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes: 1970 = 100
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Seven Major Countries
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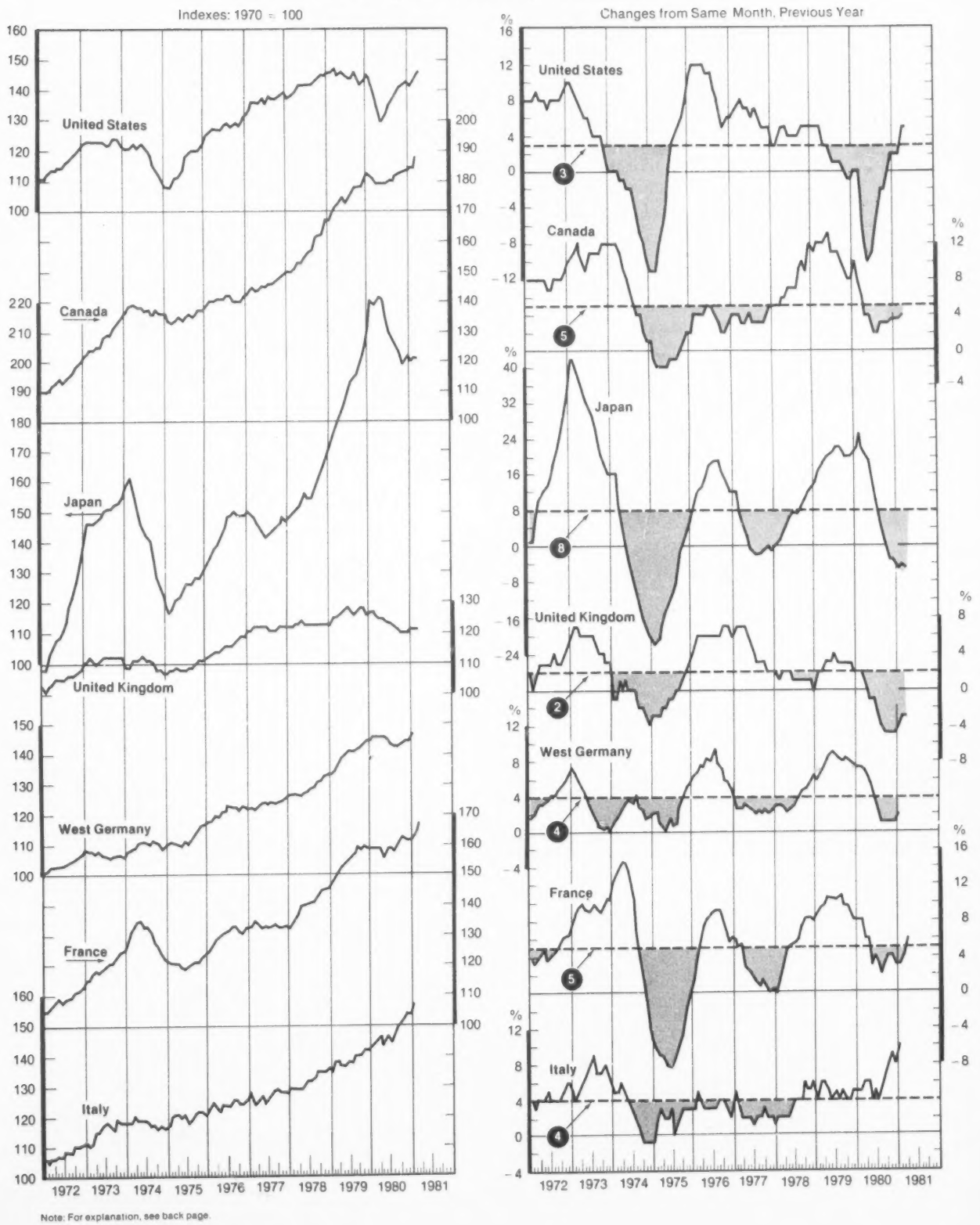
Leading Business Cycle Indexes



Note: For explanation, see back page.

In April the U.S. leading index rose to 146 (1967 = 100), a level very close to its 1979 peak. Hence the recovery phase in this index from its recession low of last May has been largely completed, and the expansion is continuing. The downswing, which started from a high of 147 in March 1979 and reached a low of 130 in May 1980, lasted about a year. The recovery to the previous high has taken about the same length of time. This pattern is quite similar, in both duration and magnitude, to previous recession-recovery patterns. In fact, as compared with its average pattern during the six U.S. recessions between 1948 and 1975, the leading index now stands just one percentage point above the position it reached at the corresponding stage of the previous episodes.

The leading indexes for the other six major industrial countries have registered improvements in recent months, but from quite different initial positions. In the United Kingdom, West Germany and Japan the declines in the leading indexes have halted. Upswings may have begun, but so far they have not been extensive. In Canada, France and Italy the leading indexes have continued to rise sharply, extending their previous gains. The current rate in the composite leading index for the six countries other than the U.S. turned positive in February for the first time since last July, registering 1% growth at annual rate. Overall, the recovery picture is more favorable than it was two months ago, and it is consistent with the beginning of a general expansion in the industrial world. However, the signals on this point are still tentative in view of the hesitant nature of the upturns in the United Kingdom and Japan.

This picture has implications for the short-term prospects for U.S. exports and imports. The continuing upswing in the U.S. leading index suggests that import volume will rise significantly in the months ahead. Export volume, on the other hand, may hold relatively steady, in view of the less favorable movement in the leading index for the six countries outside the United States. To put it differently, the leading indexes are suggesting that U.S. sales abroad are likely to show little growth while foreign sales in this country are apt to move up vigorously. The recent sharp improvement in the dollar exchange rate, which favors foreign sales in the U.S. and hampers U.S. sales abroad, reinforces this outlook for trade flows to and from the United States.

Leading Indexes, Seven Countries, 1980-81

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Dec. 80	143	184	202	120	145	162	154	152	163	145
Jan. 81	142	185	200	121	147	163	157	152	164	147
Feb. 81	143	185	201	121		164		153	165	149
Mar. 81	145	188	201	121		167		154		
Apr. 81	146									
					Percent Change from Preceding Year					
Jan. 80	0	10	22	2	7	8	5	5	11	6
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Mar. 80	−4	6	22	1	7	6	6	2	10	5
Apr. 80	−8	4	21	0	6	6	6	0	9	4
May 80	−10	4	18	−1	5	3	4	−2	8	3
June 80	−9	3	13	−1	4	4	5	−2	6	3
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Nov. 80	0	3	−3	−5	1	4	9	0	0	2
Dec. 80	2	3	−3	−5	1	3	8	1	0	2
Jan. 81	2	3	−5	−4	2	3	10	1	0	2
Feb. 81	2	3	−4	−3		4		2	1	4
Mar. 81	5	4	−5	−3		6		3		
Apr. 81	1									
					Ten-Year Annual Growth Rate, Percent					
1966-76	3	5	8	2	4	5	4	4	5	4

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INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

AUGUST 1981

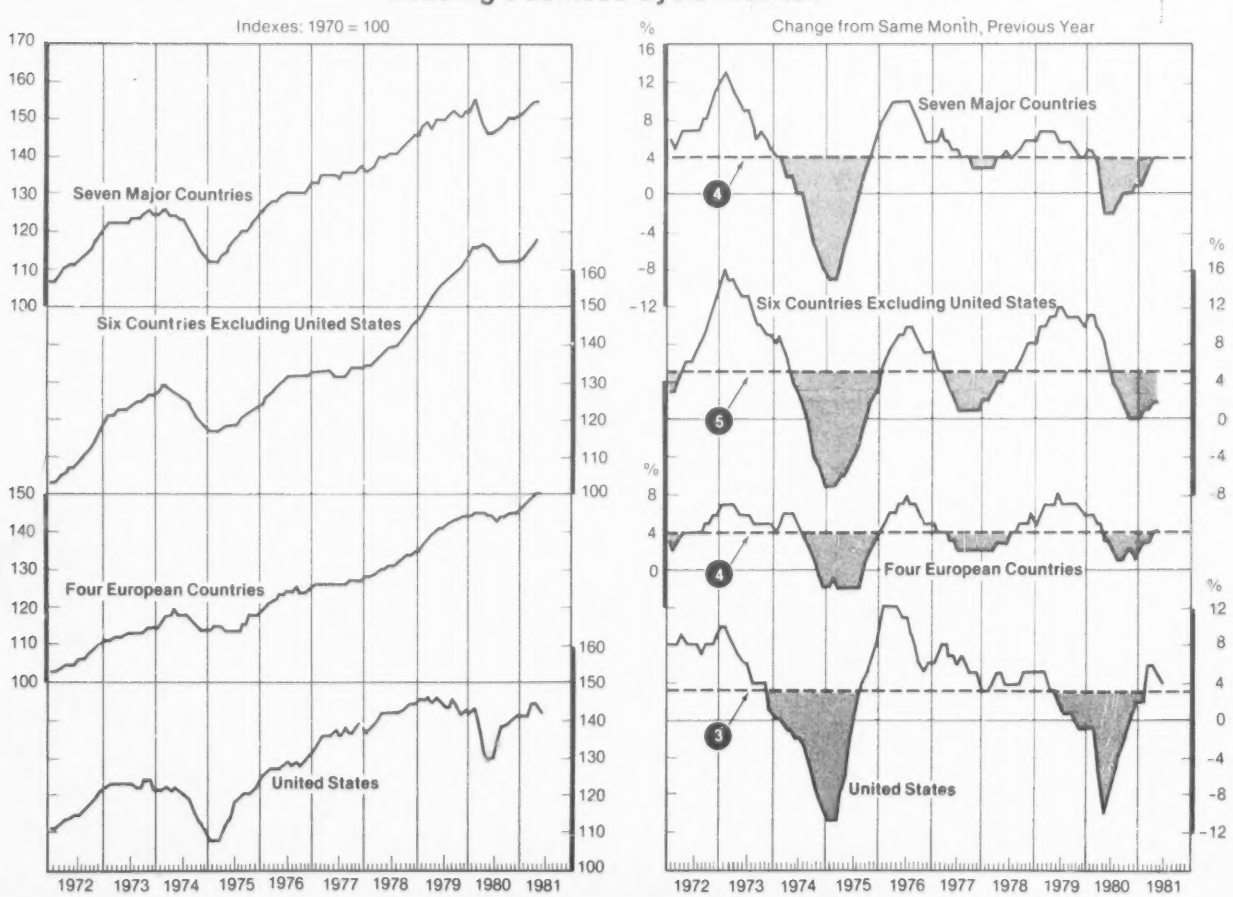
STATUS OF THE LEADING INDEXES

Summary: Although the leading indexes for the U.S. and for France have shown some weakness in recent months, the indexes for the other five major industrial countries have all moved up.

	Ten-year Growth Rates	Recent rates of change* 6 mo. ago	3 mo. ago	Latest	Current reading
		(annual rates, percent)			
United States	3	6	11	4 (June)	Expansion slackening.
Canada	5	4	6	10 (May)	Expansion accelerating.
Japan	8	—11	— 7	2 (May)	Recovery underway.
United Kingdom	2	—7	— 2	3 (May)	Recovery underway.
West Germany	4	1	2	4 (May)	Recovery underway.
France	5	3	4	2 (May)	Expansion slackening.
Italy	4	9	9	13 (Mar.)	Expansion accelerating.
6 countries ex. U.S.	5	—2	0	5 (May)	Expansion continuing.
7 countries	4	1	3	6 (May)	Expansion continuing.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes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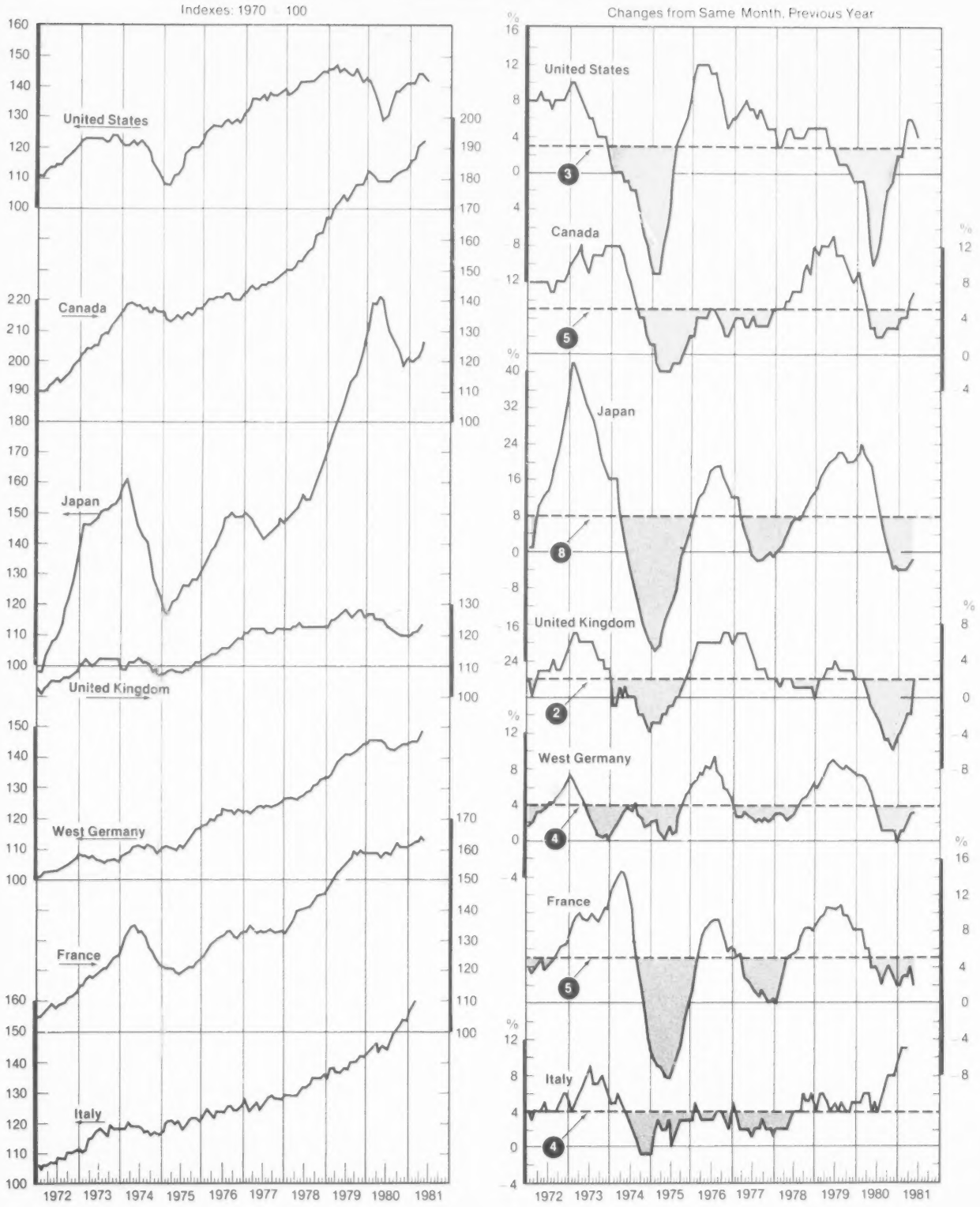
Leading Business Cycle Indexes



Note: For explanation, see back page.

EXPANSION CONTINUING

The composite leading index for the seven major industrial countries reached 155 in April and May (1970 = 100), a new high for the year and equal to its previous peak in February 1980. Since this index is based upon more than 60 economic indicators that usually anticipate future trends in output and employment, its steady improvement since last summer implies that the industrial world has made substantial progress toward recovery from the 1980 recession. Furthermore, at last report this progress is continuing. As of May, the annual growth rate in the seven-country index was 6%, well above the 2% growth rate at the end of 1980 and the negative figures that prevailed last summer.

The initial upswing in the seven-country leading index, which began about a year ago, was sparked by the vigorous upturn in the U.S. indicators. After November, however, the U.S. leading index slowed, and declines occurred in May and June. But when the U.S. advance slackened, the leading indexes for each of the other six countries either started to rise or rose faster, pushing the overall index up. Thus for the first time since the 1980 recession began, positive growth rates have now appeared in the leading indexes for each of the seven countries (see the "latest" column in the summary table).

Examination of the indexes country by country reveals a considerable degree of diversity within the overall picture of a continuing upswing. In the U.S., as already mentioned, the expansion has slackened and even changed direction in the latest two months. In France also, where the improvement in the sensitive indicators had been proceeding steadily since mid-1980, a leveling off may be developing. In contrast, the leading indexes for Japan, the United Kingdom and West Germany have improved noticeably. Two months ago about all that could be concluded from the indexes for those three nations was that the 1980 decline had halted; now each provides fairly persuasive evidence that cyclical recovery is under way. In the other two

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	U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
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Apr. 81	145	191	204	123	148	165		155	167	150
May 81	144	193	207	124	149	163		155	168	150
June 81	142									
					Percent Change from Preceding Year					
Jan. 80	−1	9	22	2	7	8	5	5	11	6
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Mar. 80	−4	6	22	1	7	6	6	2	10	5
Apr. 80	−8	4	21	0	6	6	6	0	9	5
May 80	−10	3	19	−1	5	4	4	−2	8	3
June 80	−9	3	13	−2	4	4	5	−2	6	3
July 80	−7	2	10	−3	2	3	4	−2	4	2
Aug. 80	−4	2	5	−4	1	2	6	−1	2	1
Sept. 80	−2	2	2	−5	1	3	7	0	2	1
Oct. 80	−1	3	0	−5	1	4	8	0	1	2
Nov. 80	0	3	−4	−6	1	3	8	0	0	2
Dec. 80	2	3	−3	−5	0	2	8	1	0	1
Jan. 81	2	4	−4	−4	1	2	10	1	0	2
Feb. 81	3	4	−4	−3	1	3	11	2	1	3
Mar. 81	6	5	−4	−2	2	3	11	3	1	3
Apr. 81	6	6	−3	−2	3	4		4	2	4
May 81	5	7	−2	0	3	2		4	2	4
June 81	4									
					Ten-Year Annual Growth Rate, Percent					
1966-76	3	5	8	2	4	5	4	4	5	4

countries, Canada and Italy, the indexes continue to show great strength.

Interest Rate Impact

The influence of high interest rates on economic activity has been much discussed of late throughout the world. The leading indicators are, of course, sensitive to the cost of financing, since they include investment commitments of all sorts, such as housing starts, new contracts for plant construction, orders for equipment, establishment of new businesses, inventory investment and consumer borrowing. The leading indexes, therefore, are among the first to register the adverse effects of high and rising interest rates. But this influence also runs in the opposite direction. A sharply rising volume of investment commitments, which is quickly reflected in the leading indexes, is also likely to contribute to an advance of interest rates.

The recent hesitancy and decline in the U.S. index has been partly due to high interest rates. Elsewhere, for the most part, the leading indexes have been strengthening rather than weakening. In the United Kingdom and Japan, declines in interest rates have probably contributed to this improvement. For the seven major countries as a group, the rising trend in the leading indicators suggests that factors making for recovery have so far been strong enough at least to offset adverse interest rate effects.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This bimonthly Conference Board report on the business outlook in seven major industrial countries is based on an analytical system of leading, coincident and lagging indicators that has become widely used in the United States to appraise the state of the business cycle. Similar systems have been developed in a few other countries, but because of differences in content or methodology the results are not closely comparable. In an effort to establish greater comparability and broaden the coverage, Geoffrey H. Moore and Philip A. Klein developed a new set of indicators for seven countries, including series not published in official sources. These statistics are being kept up to date, analyzed, and circulated to subscribers by the Center for International Business Cycle Research at Rutgers University.

The leading indexes shown here are composites based on a total of some 65 indicators that usually anticipate changes in national output or employment by several months. Among the indicators included for each country, whenever available, are new orders, construction contracts, corporate profits, stock prices, and changes in consumer debt. (The leading index for the U.S. used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.)

Experience has shown these indexes to have a persistent tendency to lead output and employment, for reasons deeply rooted in the workings of the business economy. In every country, when the leading index begins to rise faster, it is a fairly safe rule that industrial production will soon begin to rise faster too—typically after 3 or 4 months. When the leading index begins to rise more slowly or to decline, industrial production is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board,* April 1980.) Considerable variation in the length of lead is to be expected, however, so that constant monitoring is a prerequisite for effective use of the system. Among the uses that have been demonstrated are tracking a recession or recovery and identifying the factors involved, anticipating changes in foreign trade flows, and providing early warning of new inflationary trends. To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned during 1966-76. (These growth rates are shown at the bottom of the table and by horizontal lines on the right panel of the charts.)

For More Information

To find out more about this indicator system and its uses, and about the availability of all current data monthly for each country, please address inquiries to

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